Norman, John Henry

The Currency problem: is it false political economy?

[London]

1895

98-84374-5
MASTER NEGATIVE #

COLUMBIA UNIVERSITY LIBRARIES
PRESERVATION DIVISION

BIBLIOGRAPHIC MICROFORM TARGET

ORIGINAL MATERIAL AS FILMED - EXISTING BIBLIOGRAPHIC RECORD

332.42
Z
v.3

Norman, J[ohn] H[enry]
The currency problem, is it false political economy?
6 p. 24 cm.

Reprinted from the Bankers' magazine for November 1895.

Vol. of pamp.

TECHNICAL MICROFORM DATA

FILM SIZE: 35mm REDUCTION RATIO: 11:1 IMAGE PLACEMENT: IA IIA IB IIB

DATE FILMED: 3/30/98 INITIALS: F.C.

TRACKING # : 32159

FILMED BY PRESERVATION RESOURCES, BETHLEHEM, PA.

No. 1

Reprinted from the BANKERS' MAGAZINE *for November, 1895.*

THE CURRENCY PROBLEM:

IS IT FALSE POLITICAL ECONOMY?

J. H. Norman

SIR,—It is a most serious question whether the teaching of political economists is true with regard to the international interchanges of things and services as effected by barter, compared with the instrumentality of such intermediaries as the world's six monetary and currency systems present. In examining into this, your readers must be credited with a knowledge of the writer's views as he has set them forth in his various writings since 1882, and more especially with his two lectures delivered at the Chartered Accountants' Institute, one on the 4th April, 1894, on "Money—What it is, and how it does its work," which is bound up in that institution's annual for 1894; the other on the 29th May, 1895, upon the elements of money under the title of "Prices and foreign and colonial monetary and currency exchanges of the world worked by weight and monetary and currency signs; also prices as affected by an altered ratio between gold and silver." My "Science of money with investigations into bimetallism and four of its alternatives," also "The probable future natural ratio between the two standard substances; and gold and silver measured by wheat and labour." These two last can be obtained from Effingham Wilson & Co. Also "The result of an unnatural ratio between gold and silver," in Beerbohm's *Millers' Gazette and Corn Trade Journal*, October 2nd, 1895, to be found in that journal. Since the cessation of the operation of a legislative fixture of ratio between gold and silver by the closure of the mints of the Latin Union against the unlimited reception of silver from the public at 15½ parts of silver to 1 part of gold, the world's perplexity over the subject of money has been increasing. To those political economists who accept the writer's teaching in his larger works and in those just mentioned, grave misgivings must arise upon the accepted dogma, "The substitution of money for barter makes no difference in exports and imports, nor in the law of international values." J. S. Mill, Bk. 3, ch. 21, 1. It may be noticed in passing that this most important basis of all interchanges, barter, is only mentioned in the contents of J. S. Mill's "Principles of Political Economy" in the place just quoted. This is what he says of it in his book:—"The introduction of money is a mere addition of one more commodity, of which the value is regulated by the same laws as that of all other commodities. We shall not be surprised, therefore, if we find that international values also are determined by the same causes under a money and bill system, as they would be under a system of barter; and that money has little to do in the matter, except to furnish a convenient mode of comparing values. All interchange is in substance and effect, barter; whoever sells commodities for money, and with that money buys other goods, really buys those goods with his own commodities. And so of nations: their trade is a mere exchange of exports for imports, and whether money is employed or not, things are only in their permanent state when the exports and imports exactly pay each other. When this is the case, equal sums of money are due from each country to the other, the debts are settled by bills, and there is no balance to be paid in the precious metals. The trade is in a state like that which is called in mechanics a condition of

stable equilibrium." These paragraphs, and the whole of the context of this most able writer, evidence that he knew nothing of six different descriptions of prices and monetary and currency exchanges. Assuming that all countries in the comity of trading nations possessed a scientific automatic metal monetary system of either gold or silver (not both, nor one here and another there), the laws of barter would govern international interchanges, and there would be no fault to find with Mill's teaching. The statements made by this high authority are, in the judgment of the writer, absolutely correct if applied and confined to current interchanges within one country only.

Upon this vastly important subject of barter the writer may be allowed to quote from his article on "The Result of an Unnatural Ratio between Gold and Silver":—

The internal interchanges of a country may, for the purpose of embracing almost all means of livelihood as well, be defined under four heads:—

1. *Services.*—Labour of the bodies of men and animals, and of the minds of men.

2. *Goods.*—Including animals, raw and manufactured animal, vegetable and mineral substances; also motive power generated by wind, water, steam and electricity, with or without an unearned increment.

3. *Titles to Properties.*—Of all descriptions, with or without an unearned increment.

4. *Interest on Accrued Property.*—Under this head might perhaps be ranked profits on banking and financing, Stock Exchange operations, and the like, pensions and charities.

These present the following 20 exchanges:—

(1) Services for (2) services, or for (3) goods, or for (4) titles to properties, or for (5) interest; (6) goods for (7) goods, or for (8) services, or for (9) titles to properties, or for (10) interest; (11) titles to properties for (12) titles to properties, or for (13) services, or for (14) goods, or for (15) interest; (16) interest for (17) interest, or for (18) services, or for (19) goods, or for (20) titles to properties. These interchanges of a country are in operation wherever a community is raised above barbarism.

The main ingredients of value-giving factors in goods and titles to property are present and past labour. The basis of the exchange of services for goods is upon the ratio of the labour expended.

The introduction of an intermediary in the shape of a measure of value, *i.e.*, money, or one consisting of currency does not affect current interchanges in a country. If a high price is obtained a high price has to be paid. There will be no relative alteration in the barter value of the goods or services. These are operative laws where there is no monopoly. A measure of value, like all other substances or commodities, has both a cost value and an exchange value. The tendency of both gold and silver is to gravitate to their respective cost values. Though a government scrupulously avoids all legislation which could possibly confer upon the substance selected as the measure of value anything of the nature of a monopoly, it is not conceivable that the substance should preserve for two consecutive years the same comparative average cost value measured by the value-giving factors in the things parted with in payment for the same.

International interchanges between countries in the comity of trading nations carry on some if not all of the 20 interchanges just enumerated in a direct or indirect manner; the standard substance, if possessed by a country, entering into the interchanges under the head of goods as a commodity.

To the interchanges of the present day must be added—

5. *Intermediaries*, with which these interchanges are effected of whatever nature they are, gold or silver, coinage or countercharge tokens for money or inconvertible paper; thus giving 5 factors and 30 different exchanges.

So important is it to industrial states of society to rise above the infancy of interchanges by means of barter, that, failing scientific automatic metal monetary systems, any species of counter must be pressed into service to ostensibly, but deceitfully, do the work of a true measure of value and means of payment. So that to-day there are in the world in countries which have, or have had, a definite weight of gold here and a definite weight of silver there, as their measures of value seven descriptions of prices and six descriptions of monetary and currency exchanges. These prices are as follows:—Scientific gold (1) for scientific gold (2), or for scientific silver (3), or for

gold cum-coinage charge (4), or for silver cum-coinage charge (5), or for silver cum-counter charge (6), or for inconvertible paper (7), or for either gold or silver, at the option of the payer (8); scientific silver (9) for scientific silver (10), or for scientific gold (11), or for gold cum-coinage charge (12), or for silver cum-coinage charge (13), or for silver cum-counter charge (14), or for inconvertible paper (15), or for either gold or silver, at the option of the payer (16); gold cum-coinage charge (17) for gold cum-coinage charge (18), or for scientific gold (19), or for scientific silver (20), or for silver cum-coinage charge (21), or for silver cum-counter charge (22), or for inconvertible paper (23), or for either gold or silver, at the option of the payer (24); silver cum-coinage charge (25) for silver cum-coinage charge (26), or for scientific gold (27), or for scientific silver (28), or for gold cum-coinage charge (29), or for silver cum-counter charge (30), or for inconvertible paper (31), or for either gold or silver, at the option of the payer (32); silver cum-counter charge (33), for silver cum-counter charge (34), or for scientific gold (35), or for scientific silver (36), or for gold cum-coinage charge (37), or for silver cum-coinage charge (38), or for inconvertible paper (39), or for either gold or silver, at the option of the payer (40); inconvertible paper (41), for inconvertible paper (42), or for scientific gold (43), or for scientific silver (44), or for gold cum-coinage charge (45), or for silver cum-coinage charge (46), or for silver cum-counter charge (47), or for either gold or silver, at the option of the payer (48); either gold or silver, at the option of the payer (49); for either gold or silver, at the option of the payer (50); or for scientific gold (51), or for scientific silver (52), or for gold cum-coinage charge (53), or for silver cum-coinage charge (54), or for silver cum-counter charge (55), or for inconvertible paper (56).

The six first currency factors just indicated alone enter into the Foreign and Colonial exchanges of the world. Five European countries—France, Italy, Belgium, Switzerland and Greece—form the Latin Union, and their monetary statutes bear upon them the law of bimetallism, or the legislative fixture of ratio in the proportion of 15½ parts of silver to one part of gold, the unlimited reception at the Mints and by the Governments of both metals at this ratio, and the appointment of either metal as unlimited legal tender, the choice of the metal to be left to the payer or purchaser. Since the cessation of effective bimetallism in the world on the breakdown of the legislative fixture of ratio in 1873, three of the five countries—France, Belgium and Switzerland—numbering 48 millions of people, conduct their international trade upon an effective gold standard; Holland and Scandinavia also possess effective gold monetary systems for, say, 15 millions of people. The German Empire possesses an effective gold monetary system for 50 millions of people. For almost all the rest of Europe, numbering 191 millions of people, the currency is inconvertible paper. It is thus seen that, whilst in Europe to-day 113 millions of people use effective gold standards, 191 millions of people use inconvertible paper. On the seaboards in countries in the East and West, there are scientific silver, or effective silver-cum-coinage charge, currencies for 400 millions of people, whilst there are countries in the East where the currency for international interchanges consists of silver-cum-counter charge for 226¼ millions of people. Now upon Mill's dogma, "that the substitution of money for barter makes no difference in exports and imports, nor in the law of international values," Bagehot, as the teacher of contemporary and future students of political economy, gave forth another dogma, viz., "In the event of a fall in the gold price of silver, there must be a rise of general prices in silver standard countries." Upon Mill's dogma this was a very proper sequence. But Mill never contemplated more than one monetary system, or as good as one monetary system for the world, or, if he did, he

probably did not know how inconvertible paper might act. Observation of the occurrences which have taken place since 1873 have driven it home upon the minds of experts in the Foreign and Colonial exchanges, and the traders between silver standard and inconvertible paper currency countries, and effective gold standard countries, that prices have not risen in the former countries correlatively with the fall in the gold price of silver and the rise in the silver price of gold; and that the adjustment absolutely necessary on each import and export of goods in gold standard countries between such country and countries possessing silver standards or inconvertible paper currency, was partially, if not largely, made by a fall of prices in gold standard countries. The mechanism by which this has been effected has been pointed out by the writer in his memorandum to the Royal Gold and Silver Commission of 1886/9 page 98 of the appendix to the final report, and in several of his subsequent writings, and last repeated on pages 23 and 24 of his lecture delivered the 29th May. The charge which the writer brings against political economists and the world at large is, that they have no skill in bullion and coin, or at least, no evidence is found of it in the writings of monometallists and bimetallists, be they political economists or not. All men who would understand the terms and conditions of international interchanges must know the working of the fifty-six international Foreign and Colonial monetary and currency exchanges and their necessary effects upon prices. They will find that there may be monetary and currency interchanges without the international interchange of some other thing for some other thing. But there cannot be an international interchange of one thing for another thing without an international monetary or currency interchange at the same time affecting the prices of the things.

In the columns of the *Pall Mall Gazette*, of the 11th January, 1894, under the head of "Living Wage, Prices and Money Value," the writer advanced the following:—

"That, since 1873, neither gold nor silver have done their work by their value as intermediaries in effecting interchanges, excepting for gold and gold securities in gold standard countries, and for silver and silver securities in silver standard countries. Therefore they have not fulfilled their function as money or measures of value. The prices of both gold and silver, measured by commodities generally, should be much lower than they are; or, in other words, the prices of commodities measured by gold and silver should be much higher than they are.

"That the cost of the production has declined, and the quantity obtained from the earth has increased since 1873; that this, combined with the great fall in gold prices, the increased use of substitutes for gold, and the loss of a gold standard by some nations, must, from the quantity theory point, have vastly added to the efficiency of gold.

"That the production of silver has enormously increased, and that the cost of production has equally with gold declined.

"That general prices in gold standard countries have declined pretty much in the same proportion to the decline in the gold price of silver.

"That, as a broad statement, it may be accepted that prices in effective silver standard countries have not risen. If at all, nothing like in proportion to the fall in the gold price of silver.

"That in effective gold standard countries prices of imports and exports have dominated internal prices; that the import and export prices in these countries have directly or indirectly been governed by the import and export prices prevailing on the sea-board of effective silver standard countries.

"That in countries with an effective silver standard on the sea-board, internal prices have dominated import and export prices."

Permit the writer to draw the attention of your readers to a series of tracts, of 15 to 38 pages each, commenced in December, 1894, and proceeding since at the rate of two a month, on "Sound Currency," dealing with money and note issues payable on demand. These tracts are produced by the sound currency committee of the Reform Club, New York, at their office, 52 William Street, subscription a dollar a year, and the price to subscribers 5 cents a copy. They are mostly by different writers, and certainly claim the attention of all students of money and note currency. That which has particularly claimed the attention of the writer is "A stable monetary standard—a problem in practical science," by Henry Farquhar. He gives diagrams showing reciprocal variations in gold and silver in each of the three. The first, besides gold and silver, U.S.A. export prices, 19 commodities and 11 foods. The second, besides gold and silver, U.S.A. prices of foods, commodities generally, *Economist* prices, wages in the U.S.A., France and Germany. The third, besides gold and silver, Sauerbeck's 45 commodities (19 foods) and 21 *Economist* prices from 1850. Under the interpretation of these curves he has made important remarks. May the writer briefly indicate their direction?—The upper diagram shows that prices have followed silver and not gold. The middle diagram likewise, for it is by direction that we must judge, not position. The lowest diagram shows the same thing for England, with even greater emphasis, general prices having fallen there relatively even to silver; though this is less marked with the *Economist* than with the Sauerbeck figures . . . "As a representative of prices about 1860, as the middle diagram shows us, gold has for the last eighteen years answered very well indeed in the U.S.A. It has the same purchasing power that it had then, far more nearly than silver has. But, strangely enough, the same rule does not hold for England. These prices still follow silver, and keep strikingly close to it, if we consider how careful that country has long been to accept only gold as its measure of values. What is the reason of this difference? . . . . The explanation is found . . . in our revenue legislation, which then underwent its most significant modifications." One of his heads is, "The Gold Standard Inevitable." Under the practicability of Bimetallism he quotes and comments upon "Bimetallism: a Tract for the Times," by Francis A. Walker. He admits the fairness of General Walker's opening, which is as follows: "Three successive questions are involved in the problem of bimetallism. First, is it economically desirable, and this in a high degree? Second, is it economically practicable—that is, if the system were set up, would it work successfully under the normal operation of the principle of self-interest without any help from philanthropy or public spirit, or patriotism? . . . Third, is it politically and diplomatically possible—that is, can the consent and co-operation of a sufficient number of nations be secured to set up and sustain, if, indeed, it be economically practicable?" Mr. Farquhar's comment on this is, "General Walker's second question is admirably stated, but his discussion of it gives no satisfactory answer." We shall not all agree to the last sentence of his conclusion to his pamphlet: "In a total abandonment by the Government of its power to declare a legal tender for private debts, is to be found the true practical solution of this problem, a stable monetary standard."

It is requisite for every country which aims at the continuous possession of a scientific automatic gold standard currency to keep sufficient reserves of the standard substance in bullion or coin to meet state or bank notes on demand, in the times of distrust of these promises to pay the standard substance on demand.

A careful study of the quotation from Mill herein given satisfies the writer that this excellent general authority had no conception. "That nothing leaves

a coun ry without being as good as weighed out against the standard substance of the country, or measured out against its currency, of whatever nature it may be, and that the same thing is treated in the same way in the country which imports it." Currency has this most important function, besides adjusting balances.

I would refer your readers to Professor Bastable's "Theory of International Trade," Dublin, 1887.

Yours, etc.

J. H. NORMAN.

END OF
TITLE